EUROPEAN
COMMISSION

Brussels, 11.7.2013
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2013/0247 (COD)

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

amending Council Regulation (EC) No 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD)

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

Extension of derogation for those Member States threatened with serious difficulties with respect to their financial stability to use increased co-financing rates

- **Reasons and objectives for the proposal**

The sustained financial and economic crisis has put national financial resources under pressure as Member States pursue necessary policies of fiscal consolidation. In this context, is of particular importance to ensure a maximum implementation of rural development programmes.

Programme implementation is often challenging, not least as a result of the liquidity problems resulting from fiscal consolidation. This is particularly the case for those Member States which have been most affected by the financial crisis and have received financial assistance under an adjustment programme. To date, seven countries have received financial assistance and have agreed a macro-economic adjustment programme with the Commission. These countries are Cyprus, Hungary, Romania, Latvia, Portugal, Greece and Ireland, hereafter called "programme countries". Hungary, Romania and Latvia are no longer under an adjustment programme.

To ensure that these Member States (and any other Member State which may benefit from such assistance programmes in the future) continue to implement rural development programmes on the ground and continue to disburse funds to projects, the current proposal contains provisions that would allow these Member States to use increased co-financing rates, without modifying their overall allocation under rural development policy for the period 2007-2013. This will provide additional financial resources to the Member States at a critical juncture and will facilitate the continued implementation of programmes on the ground.

- **General context and provisions in force in the policy sphere of the proposal**

Article 70(4c) of Regulation (EC) No 1698/2005 provides for a derogation to increase the European Agricultural Fund for Rural Development (EAFRD) contribution ceilings set out in paragraphs 3, 4 and 5 of the same Article, up to a maximum of 95 % of eligible public expenditure in the regions eligible under the Convergence Objective and the outermost regions and the smaller Aegean Islands, and up to 85 % of eligible public expenditure in other regions. That derogation currently applies only to the expenditure incurred by the paying agencies until 31 December 2013.

- **Consistency with other policies and objectives of the Union**

The proposal is consistent with other proposals and initiatives adopted by the Commission as a response to the financial crisis.

2. RESULTS OF CONSULTATIONS WITH THE INTERESTED PARTIES AND IMPACT ASSESSMENTS

- **Consultation of interested parties**

There was no consultation of external stakeholders

- **Procurement and use of expertise**

Use of external expertise has not been necessary.

- **Impact analysis**

The Member States under financial assistance have a possibility to submit a request to the Commission to modify its 2007-2013 rural development programme and make use of the derogation to apply higher than normal co-financing rates. Currently Greece, Ireland and Portugal make use of that derogation, but not in all cases up to the maximum. Because the total financial allocation for the period from the EAFRD to the Member States and the programmes in question will not change, the higher EU co-financing rates essentially reduce the total amount of public contribution available to the rural development programmes during the programming period. The possibility for the Member States under financial assistance to increase the EAFRD contribution rates under the current 2007-2013 rural development programmes currently exist only for the expenditure incurred until 31 December 2013 (for the period the Member State is under financial assistance) and therefore does not extend until the final eligibility date of the expenditure on 31 December 2015.

For the expenditure incurred under the new programming period 2014-2020, according to Article 22 of Regulation (EU) No …/… [Common Provisions Regulation] the EAFRD contribution rate may be increased by 10 percentage points above the co-financing rate applicable to each measure for the EAFRD. This new system, which will be a uniform top-up for all measures, may in some cases mean either lower or higher changes to the EAFRD contribution rates than the current system under Article 70(4c) of Regulation (EC) No 1698/2005.

If the possibility provided for in Article 70(4c) of Regulation (EC) No 1698/2005 to use higher than normal EAFRD contribution rates under the current rural development programmes is limited until the end of 2013 and only to the period in which the Member State is under financial assistance, there is a risk that the maximum and optimal use of the funding from the EAFRD will be seriously affected for the rural development programmes concerned before the possibility exist for the top-ups under the new programmes.

3. LEGAL ELEMENTS OF THE PROPOSAL

- **Summary of the proposed measures**

It is proposed to amend Article 70(4c) of Regulation (EC) No 1698/2005 to allow the Member States receiving financial assistance to benefit from the increase of 10 percentage points, only for the open budget commitments for the 2007-2013 programming period, until the end of the eligibility period and to claim it in their requests for final balance even if the financial assistance is not anymore provided.

- **Legal basis**

Articles 42 and 43 of the TFEU.

- **Subsidiarity principle**

The proposal complies within the subsidiarity principle to the extent that it seeks to provide increased support through EAFRD for certain Member States which are experiencing serious difficulties, notably with respect to economic growth and financial stability and with deterioration in their deficit and debt position, also as a result of the international economic and financial environment. In this context, it is necessary to establish at the Union level a temporary mechanism which allows derogating from the normal co-financing rates for the EAFRD.

- **Proportionality principle**

The proposal conforms to the proportionality principle:

The extension of the application of the increased co-financing rates is proportional in relation to the sustained economic crisis and to the other efforts undertaken to help these Member States.

- **Choice of instruments**

Proposed instrument: amendment of the current regulation.

The Commission has explored the scope for manoeuvre provided by the legal framework and considers it necessary, in the light of experience up to now, to propose a modification to Regulation (EC) No 1698/2005.

4. BUDGETARY IMPLICATION

There is no impact on commitment appropriations since no modification is proposed to the maximum amounts of EAFRD financing provided for in the Operational Programmes for the programming period 2007-2013.

However, the need of payment appropriations in budget 2014 may be increased by EUR 90 million in case Member States continue applying the increased co-financing rates.

In the light of Member State's requests to benefit from this action and taking into account the evolution of the submission of interim payments, the Commission will review the situation and if necessary consider relevant actions.

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THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 42 and 43 thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national Parliaments,

Having regard to the opinion of the European Economic and Social Committee[1],

Having regard to the opinion of the Committee of the Regions[2],

Acting in accordance with the ordinary legislative procedure,

Whereas:

(1) The unprecedented global financial crisis and economic downturn have seriously damaged economic growth and financial stability and provoked a strong deterioration in financial and economic conditions in several Member States. In particular, certain Member States are experiencing serious difficulties or are threatened with such difficulties, notably with problems in their economic growth and financial stability and with deterioration in their deficit and debt position, also as a result of the international economic and financial environment.

(2) Whilst important actions to counterbalance the negative effects of the crisis have already been taken, including amendments of the legislative framework, the impact of the financial crisis on the real economy, is still being widely felt and pressure on national financial resources is increasing.

(3) In view of the serious difficulties that a number of Member States still face with respect to their financial stability, and in order to limit the resulting negative effects during the transition from the current to the forthcoming programming period, by allowing for maximum utilisation of the EAFRD funds available, the duration of the derogation increasing the maximum EAFRD contribution rates provided for in Article 70(4c) of Council Regulation (EC) No 1698/2005[3] should be extended until the final date of eligibility of expenditure for the 2007-2013 programming period, on 31 December 2015.

(4) The possibility for interim payments and payments of final balance to be increased above the normal co-financing rate should not be limited to the time period during which the Member State receives financial assistance in accordance with Regulation

[1] OJ C , , p. .
[2] OJ C , , p. .
[3] OJ L 277, 21.10.2005, p.1.

(EU) No 407/2010, Regulation (EC) No 332/2002 or the Treaty establishing the European Stability Mechanism because the Member State continues to face serious difficulties in ensuring co-financing from the national budget even after the financial assistance has been completed.

(5) In line with the European Council conclusions of 7-8 February 2013 and as foreseen in Article 22 of [CPR], the co-financing rate increased by 10 percentage points will apply with regard to the 2014-2020 programming period until 30 June 2016 when the possibility of the increase will be reviewed. As the 2007-2013 and 2014-2020 programming periods overlap, it is necessary to ensure coherent and uniform treatment of Member States receiving financial assistance under the two periods. Therefore, the Member States receiving financial assistance should be able to benefit from the increase of the co-financing rate until the end of the eligibility period and to claim it in their requests for final balance even if the financial assistance is not anymore provided.

(6) In view of the fact that the deadline established in Article 70(4c) coincides with the end of the programming period and the relevant programming and procedural requirements, it is appropriate that this Regulation enters into force on the day of its publication in the Official Journal of the European Union.

(7) Regulation (EC) No 1698/2005 should therefore be amended accordingly,

HAVE ADOPTED THIS REGULATION:

Article 1

Article 70(4c) of Regulation (EC) No 1698/2005 is amended as follows:

(a) In the first subparagraph the introductory part is replaced by the following:

"By way of derogation from the ceilings set out in paragraphs 3, 4 and 5, the EAFRD contribution may be increased up to a maximum of 95 % of eligible public expenditure in the regions eligible under the Convergence Objective and the outermost regions and the smaller Aegean Islands, and 85 % of eligible public expenditure in other regions. These rates shall apply to the eligible expenditure newly declared in each certified declaration of expenditure, where after [*OPOCE please insert date of entry into force of this Regulation*] a Member State complies with one of the following conditions: "

(b) The second subparagraph is replaced by the following:

"A Member State wishing to make use of the derogation provided for in the first subparagraph shall submit a request to the Commission to modify its rural development programme accordingly. The derogation shall apply from the approval, by the Commission, of the modification of the programme."

Article 2

This Regulation shall enter into force on the day of its publication in the *Official Journal of the European Union.*

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the European Parliament	*For the Council*
The President	*The President*

LEGISLATIVE FINANCIAL STATEMENT

FINANCIAL STATEMENT	AGRI/I1/2013/1278200 6.20.2013.6 DATE: 17.05.2013

1. BUDGET HEADING:

   05 04 Rural Development

2. TITLE:

   Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Council Regulation (EC) No 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD)

3. LEGAL BASIS:

   Article 43(2) of the Treaty on the Functioning of the European Union

4. AIMS:

   This regulation extends until the end of 2015 the derogation which allows Member States under financial assistance to increase the EAFRD contribution rates up to 95% in regions under the Convergence Objective and the outermost regions and smaller Aegean Islands, and up to 85% in other regions.

5. FINANCIAL IMPLICATIONS	12 MONTH PERIOD (EUR million)	CURRENT FINANCIAL YEAR 2013 (EUR million)	FOLLOWING FINANCIAL YEAR 2014 (EUR million)
5.0 EXPENDITURE - CHARGED TO THE EU BUDGET (REFUNDS/INTERVENTIONS) - NATIONAL AUTHORITIES - OTHER			CA: - PA: + 90
5.1 REVENUE - OWN RESOURCES OF THE EU (LEVIES/CUSTOMS DUTIES) - NATIONAL			

	2015	2016	2017	2018
5.0.1 ESTIMATED EXPENDITURE 5.1.1 ESTIMATED REVENUE			PA: - 90	

5.2 METHOD OF CALCULATION: -	
6.0 CAN THE PROJECT BE FINANCED FROM APPROPRIATIONS ENTERED IN THE RELEVANT CHAPTER OF THE CURRENT BUDGET?	n.a.
6.1 CAN THE PROJECT BE FINANCED BY TRANSFER BETWEEN CHAPTERS OF THE CURRENT BUDGET?	n.a.
6.2 WILL A SUPPLEMENTARY BUDGET BE NECESSARY?	NO
6.3 WILL APPROPRIATIONS NEED TO BE ENTERED IN FUTURE BUDGETS?	NO

OBSERVATIONS:
For commitment appropriations, the modification of Regulation 1698/2005 will not have any financial impact as the global envelope for rural development remains unchanged as well as its annual breakdown.

For payments, the extension of the derogation that permits the application of increased co-financing rates could result in higher reimbursements to the MS concerned. The proposal will not have any impact in year 2013. Based on the latest available payment forecast from Member States, the additional payments needs can be estimated at EUR 90 million in 2014 (compared to a situation where the application of increased rates ends in 2013). This amount will be compensated at the closure of programmes, most likely in 2017.

In the light of Member State's requests to benefit from this action and taking into account the evolution of the submission of interim payments, the Commission will review the situation and if necessary consider relevant actions.